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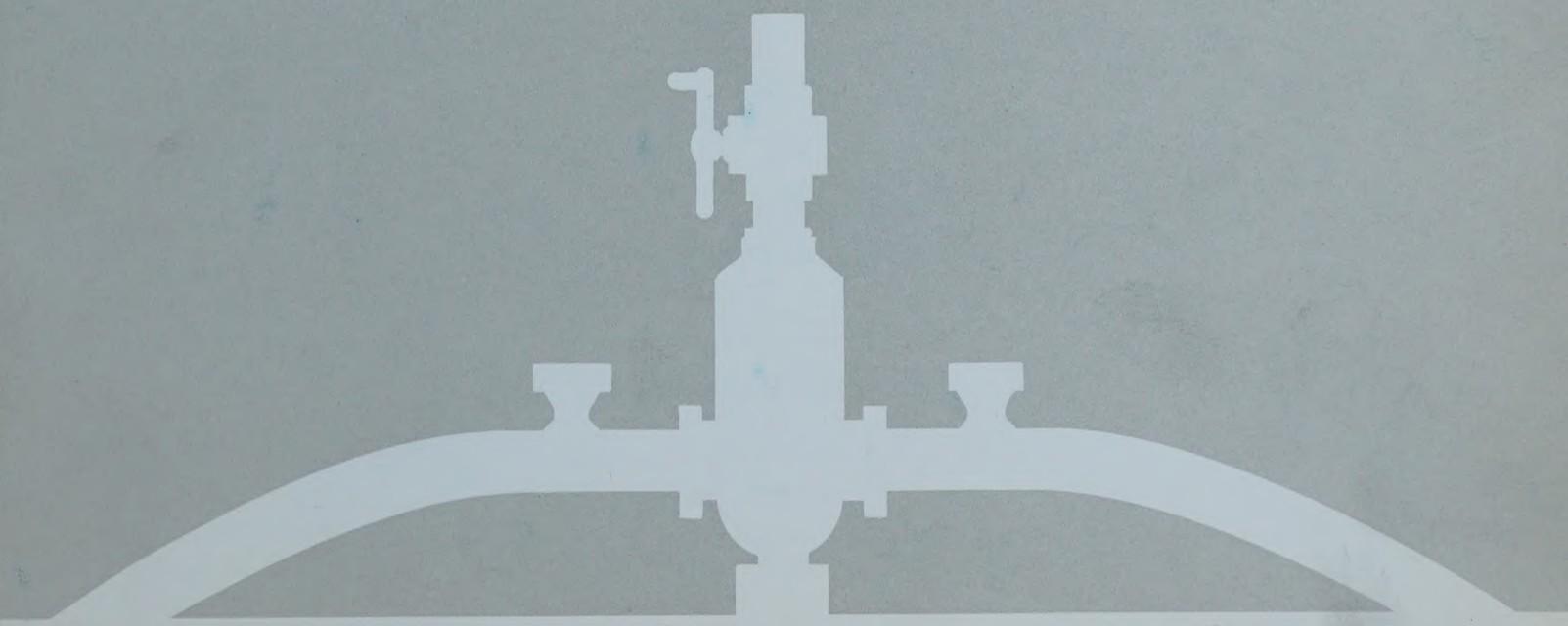
J. E. Bell

APR 22 1963

BANFF OIL LTD.

G. H. Bell

1963 ANNUAL REPORT



CALGARY, ALBERTA, CANADA

BANFF OIL LTD.

Thirteenth Annual Report

BOARD OF DIRECTORS

BRADSHAW D. FIRSTBROOK	Montreal, P.Q.
JEAN-PAUL LEGRAND	Paris, France
HAROLD W. MANLEY	Calgary, Alberta
LOUIS PRADAL	Calgary, Alberta
JOHN C. RUDOLPH	Calgary, Alberta
DONALD K. RUSSELL	New York, N.Y.
GILBERT RUTMAN	Pau, France
WATKIN SAMUEL	Toronto, Ontario

OFFICERS

JOHN C. RUDOLPH	President
J. J. SAUCIER, Q.C.	Secretary
THOMAS GRANDIN, C.A.	Treasurer

HEAD OFFICE

505 Eighth Avenue Building Calgary, Alberta

COUNSEL

CHAMBERS, SAUCIER, JONES, PEACOCK,
 BLACK, GAIN & STRATTON Calgary, Alberta
 SIMPSON, THACHER AND BARTLETT New York, N.Y.

AUDITORS

TOUCHE, ROSS, BAILEY & SMART Calgary, Alberta

TRANSFER AGENT

MONTREAL TRUST COMPANY Calgary, Alberta
 TORONTO, Ontario
 MORGAN GUARANTY TRUST COMPANY
 OF NEW YORK New York, N.Y.

REGISTRARS

MONTREAL TRUST COMPANY Calgary, Alberta
 TORONTO, Ontario
 EMPIRE TRUST COMPANY New York, N.Y.

STOCK EXCHANGE LISTING

TORONTO STOCK EXCHANGE Toronto, Ontario
 AMERICAN STOCK EXCHANGE New York, N.Y.

BANFF OIL LTD.

The Report in Brief

(1962 FIGURES FOR COMPARISON)

FINANCIAL

	1962	1963	Change + or —
Gas and Gas Products Sales (less Royalties)	\$ 305,791	\$ 306,850	—
Oil Sales (less royalties)	340,280	395,880	+ 16%
Administrative Expenses	98,074	144,739	+ 48%
Debenture and Bank Loan Interest	75,217	100,694	+ 34%
Cash Profit	262,462	195,894	— 25%
Cash Profit per share	7.37c	5.50c	— 25%
Net Operating Profit	40,624	3,464	— 91%
Working Capital	7,496	275,475	+ 357%

PRODUCTION

Pipeline Gas (net Mcf)	1,281,401	1,163,258	— 9%
Average Mcf per day	3,511	3,187	— 9%
Natural Gas Liquids (net barrels)	31,857	23,760	— 25%
Crude Oil (net barrels)	155,229	179,928	+ 16%
Average barrels per day	425	492	+ 16%
Sales price per barrel of Oil	\$2.19	\$2.20	—
Operating costs per barrel66	.74	+ 12%
Net return per barrel	1.53	1.46	— 5%

RESERVES

Proven Crude Oil (net barrels)	4,158,168	4,462,268	+ 7%
Proven Natural Gas Liquids (net barrels)	1,620,802	1,429,965	— 12%
Proven Pipeline Gas (net Mcf)	102,336,000	92,083,000	— 10%
Proven Sulphur (net long tons)	429,896	391,530	— 9%

LAND

Gross Acreage	874,662	992,522	+ 13%
Net Acreage	212,125	227,049	+ 7%

WELLS

Gross Oil Wells	104	108	+ 4%
Net Oil Wells	18.3	23	+ 26%
Gross Gas Wells	57	60	+ 5%
Net Gas Wells	10.5	11.3	+ 8%

SHARES

Shares Outstanding (common)	3,562,601	3,562,601	—
Shares Outstanding (preferred)	3,257	3,257	—
Number of Shareholders	5,896	5,580	— 5%

REPORT OF THE DIRECTORS

TO THE SHAREHOLDERS OF BANFF OIL LTD.

The Thirteenth Annual Report of the Company for the year ended December 31, 1963 is presented herewith.

Marked changes have taken place in the Company since the last Annual Report was issued. Major financing has greatly reduced Company long-term debt and a significant change in common share ownership has been effected. The year 1963 also saw increased oil production and income but slightly decreased gas and liquids production (due to 2 months production being dedicated to the carve-out) and extensive exploration efforts by others directly involving Company lands.

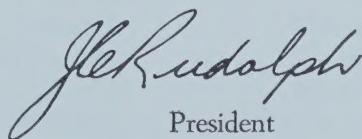
Commencing November 1, 1963 a production carve-out was negotiated with New York Life Insurance Company whereby Banff sold a portion of its future production from the Calgary field for \$2,000,000, involving an estimated nine years production. The Company also sold most of its Redwater production for \$600,000. The funds from these transactions were used to retire the convertible debenture issue of the Company held by Northwestern Mutual Life Insurance Company, to retire a major part of the bank debt and to provide development funds.

Exploration highlight of the year was the intense interest shown by many major companies in the large Smoky River block in which Banff has a significant net carried interest. While the first round of exploratory drilling was somewhat disappointing, drilling activity continues on several different plays.

In January 1964, Aquitaine Company of Canada Ltd. (Canadian subsidiary of Societe Nationale des Petroles D'Aquitaine, a major French gas producer) made an offer to purchase Banff shares, subsequently acquiring approximately 40% of the common shares of the Company. It has been agreed that Banff will continue to operate without change and that Aquitaine will participate with Banff in the majority of its exploration plays taking a major percentage in remote, long-term, high risk areas and a lesser percentage in southern Alberta, Saskatchewan and Manitoba where Banff has previously been most active. The exploration management fees accruing to Banff on the wide-spread 1964 drilling program should be sufficient to cover most of the Company's administrative costs including an expanded geological and engineering staff. Aquitaine has also agreed to some exchange of personnel and to give Banff access to SNPA's extensive research facilities and knowledge in such fields as palynology, micro-paleontology, geochemistry, production and drilling. Company shareholders should benefit greatly from this association in the years to come.

In July 1963 Mr. Peter Kilburn of Montreal resigned from your Board after six years of diligent and effective service to the Company. He was replaced by Bradshaw D. Firstbrook also of Greenshields Incorporated. In February 1964, following the Aquitaine offer, Mr. Kenneth Battye of Baltimore, Dr. Leslie Knapp and Mr. Duane Tower, both of Buffalo, resigned to give way to Messrs. Legrand, Pradal and Rutman. Dr. Knapp and Mr. Tower were members of the original Board of your Company. They have served faithfully since 1952, Mr. Battye since 1962.

Submitted on behalf of the Board of Directors,


President

March 20, 1964.
Calgary, Alberta.

Development

Drilling in the Bashaw field accounted for most of the development activity in 1963. Additional follow-up wells to the Matziwin and Morinville discoveries were also drilled.

WELL	LOCATION	CO. INT.	TOTAL DEPTH	RESULT
Banff B.A. et al Bashaw 12-7	12-7-42-22-4	30 %	5,892'	D-2 Oil Well
Banff Texaco Bashaw 2-12	2-12-42-23-4	15 %	5,757'	D-3 and D-2 Oil Well
Banff Texaco Bashaw 10-12	10-12-42-23-4	15 %	5,787'	D-3 and D-2 Oil Well
Banff Jeff Lake Bashaw 10-1	10-1-42-23-4	30 %	5,716'	D-3 and D-2 Oil Well
Banff Jeff Lake Bashaw 4-6	4-6-42-22-4	30 %	5,793'	D-3 Oil Well
Banff Texaco Bashaw 2-13	2-13-42-23-4	22-1/2 %	5,840'	Dry and Abandoned
Banff Texaco Bashaw 4-24	4-24-42-23-4	15 %	5,772'	D-3 & Camrose Oil Well
Banff Jeff Lake Bashaw 10-7	10-7-42-22-4	30 %	5,864'	Dry and Abandoned
Banff Jeff Lake Bashaw 2-23	2-23-42-23-4	30 %	5,927'	Suspended Gas Well
Banff Jeff Lake Bashaw 2-1	2-1-42-23-4	30 %	5,757'	D-3 Oil Well
Banff Jeff Lake Bashaw 12-1	12-1-42-23-4	30 %	5,700'	Dry and Abandoned
Banff Jeff Lake Bashaw 2-7	2-7-42-22-4	30 %	5,882'	D-3 and D-2 Oil Well
Banff Jeff Lake Bashaw 10-32	10-32-41-22-4	50 %	5,845'	D-3 Oil Well
Banff et al Morinville 10-17	10-17-55-25-4	50 %	4,625'	D-3 Oil Well
Banff et al Morinville 4-20	4-20-55-25-4	25 %	4,599'	Dry and Abandoned
Banff et al Morinville 10-20	10-20-55-25-4	25 %	4,605'	Dry and Abandoned
Banff et al Matziwin 2-16	2-16-23-14-4	75 %	3,420'	Pekisko Oil Well
Jeff Lake Mobil Cross 11-31	11-31-25-28-4	2,431%	8,664'	Crossfield Gas Well
R.O. Sinclair A Lator 10-6	10-6-63-2-6	*6-2/3 %	7,330'	Dunvegan Oil Well
R.O. Corp. et al Lator 12-6	12-6-63-2-6	*6-2/3 %	7,425'	Dry and Abandoned

Exploration

Banff participated in nine exploratory tests during the year; two of these resulted in important D-3 field extensions at Wimborne and Bashaw and a third, Morinville 2-20, resulted in a new D-3 pool discovery. The remaining six wells were dry and abandoned. Wildcat drilling was substantially lower than 1962 due to heavy development drilling obligations.

WELL	LOCATION	CO. INT.	TOTAL DEPTH	RESULT
Banff et al Bashaw 12-13	12-13-42-23-4	30 %	5,852'	D-3 and D-2 Oil Well
Banff Security Shepard 6-2	6-2-23-29-4	50 %	1,261'	Dry and Abandoned
Banff et al Keg River 10-27	10-27-101-21-5	7.5 %	4,405'	Dry and Abandoned
Banff et al Turin 10-27	10-27-12-19-4	30 %	3,888'	Dry and Abandoned
Banff et al Nateby 10-6	10-6-23-13-4	75 %	3,405'	Dry and Abandoned
Banff et al Morinville 2-20	2-20-55-25-4	25 %	4,525'	D-3 Oil Well
Banff Dea Chestermere 10-2	10-2-24-28-4	20 %	6,910'	Dry and Abandoned
Banff Jeff Lake Alix 14-29	14-29-39-23-4	50 %	6,080'	Dry and Abandoned
Jeff Lake BA Kneehill 8-17	8-17-35-26-4	50 %	7,565'	Suspended D-3 Gas Well
R.O. Corp. et al A Lator 10-7	10-7-63-2-6	*6-2/3 %	7,150'	Dry and Abandoned

* Net carried interest

BASHAW

The development program initiated in late 1962 continued well into 1963 with a total of 14 wells being drilled by Banff and partners. One and a half sections of additional productive lands have been acquired that included three existing wells which have since been placed on production. To date the Company shares an interest in 23 oil completions in the Bashaw field, 14 in in the D-3, 8 in the D-2 and 1 in the Camrose. Three development wells were abandoned and a fourth that failed to find production in the Devonian was completed as a shut-in Basal Cretaceous gas well.

The most interesting development arising out of this drilling program was the discovery of a third productive zone (Camrose member) in the most northerly producer in 4-24-42-23-4. The Camrose is located immediately below the D-2 and in the 4-24 well had a gross pay zone of 51 feet. More recently another discovery in the Camrose was made by another company in 11-34-42-23-4. Banff has a 50% interest in a lease located one-half mile east of this discovery. Further development of the Camrose member is planned for 1964.

Many of our recent oil completions have also proven up a substantial amount of gas and some oil in the Basal Lower Cretaceous. A total of eleven wells in the field have now indicated gas reserves in this zone.

While production rates from the D-2 have been lower than was originally expected and some of the D-3 wells have excessive gas production, drilling to date has outlined very substantial reserves of sour gas in the Devonian and sweet gas in the Lower Cretaceous. The Company plans further development in 1964 in an effort to find reserves of sufficient size to be marketable.

WIMBORNE

Banff's share of the Wimborne D-3 Unit has been established at 9.110870% by the Unitization Agreement. The Engineering Committee of the Unit has estimated gross recoverable reserves of:

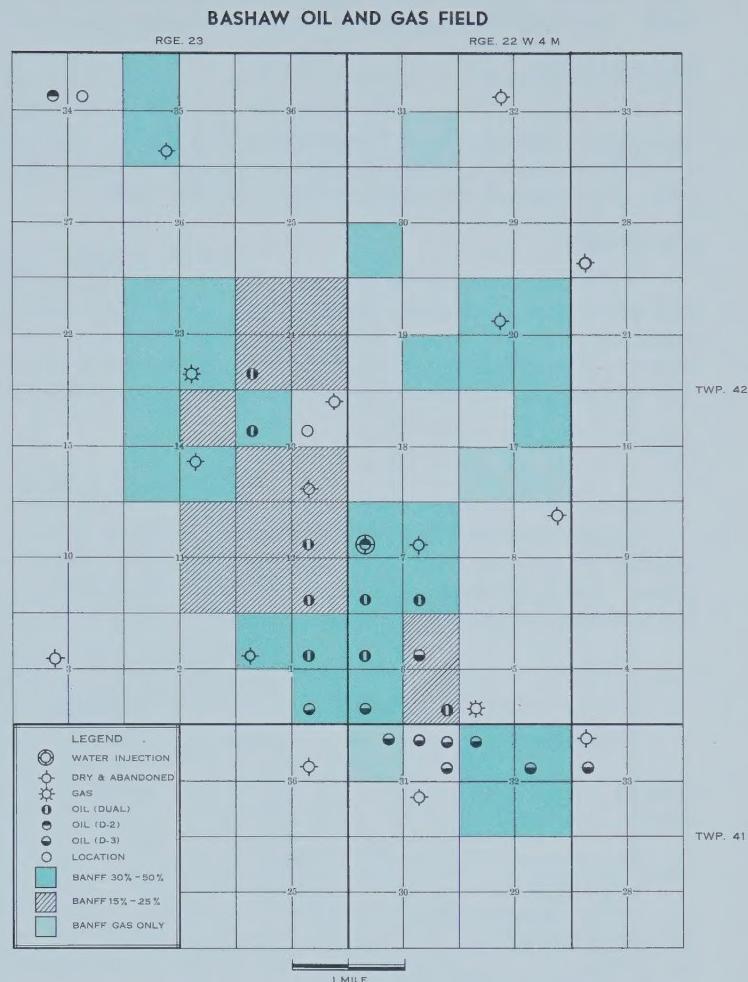
Pipeline Gas	305,900 MMcf
Natural Gas Liquids	8,370,000 Bbls.
Oil	5,950,000 Bbls.
Sulphur	2,200,000 Long Tons

which Banff believes are very conservative.

Construction is currently in progress on a \$6,800,000 gas plant and gathering system scheduled for completion about December 1, 1964. Under terms of a contract with Trans Canada Pipe Lines daily production will be 34 MMcf pipeline gas yielding 1,100 barrels of natural gas liquids, 780 barrels of oil and 190 long tons of sulphur.

MORINVILLE

During the latter part of 1963 an exploratory well drilled in the Morinville area of central Alberta was completed as a 31° gravity oil discovery in the Leduc (D-3) at a depth of 4,500'. This well is estimated to have a 28' gross pay section. Three offset locations drilled on the 160-acre spacing pattern required by the Oil and Gas Conservation Board resulted in two dry holes and only one producer. Since



that time, on application by Banff and Jefferson Lake, the spacing has been amended to 80-acres per well. A fourth development well is now being drilled on the new spacing pattern.

MATZIWIN

One development well, Matziwin 2-16-23-14, located one-quarter mile south of the 1962 discovery well, was completed as a Mississippian Pekisko oil well with an initial potential of 140 barrels per day. Good production results and reservoir performance for the past year have encouraged the Company to plan a substantial development program for 1964.

CALGARY

Two development wells, one each in the Calgary Elkton and Calgary Crossfield Units, were drilled and placed on production during 1963. It is expected that an addition to the Calgary plant will be constructed in 1964 to provide for permanent removal of objectionable mercaptans from the sales gas stream. Completion of this plant will enable the field to increase its sales from 100 MMcf per day to 110 MMcf per day and will give increased liquids recovery.

Land

Banff's net land holdings increased by 7% in 1963 consisting mostly of land earned through the drilling of wildcat wells and additional freehold and Crown lands acquired on the various exploratory plays. Land holdings are being reviewed continuously and the Company surrenders those on which further exploratory effort cannot be justified.

LAND SUMMARY

	GROSS			NET		
	1962	1963	Change	1962	1963	Change
Alberta	848,422	966,282		208,378	223,302	
Alaska	26,240	26,240		3,747	3,747	
Total	874,662	992,522	+ 13.5%	212,125	227,049	+ 7%

As in the past the bulk of the Company land holdings are located in central and southern Alberta. It is anticipated that changes in exploration policy will result in a diversification of our land holdings into Saskatchewan, northern Alberta and British Columbia. There was no activity during 1963 around our Alaska lands.

Production and Reserves

Production of crude oil and sulphur showed substantial gains during the year whereas production of pipeline gas and natural gas liquids showed a slight decline. This decrease in gas and gas products is a direct result of the production carve-out coming into effect during the last two months of the year. Total throughput of the Calgary plant increased slightly; production from the Crossfield Unit increased markedly with a corresponding decrease from the Elkton Unit. This adjustment is responsible in large part for the gain in sulphur production and the decrease in natural gas liquids production.

Production Summary

	1962	1963	Net Change
Crude Oil (net bbls.)	155,229	179,928	+ 15.9%
Pipeline Gas (MMcf)	1,281	1,163	- 9.2%
Natural Gas Liquids (net bbls.)	31,857	23,760	- 25.4%
Sulphur (long tons)	1,001	2,836	+ 183 %

As of the year end Banff had varying interests in 108 oil wells equivalent to 22.96 net wells or an increase of 25% over 1962. The Company currently has an interest in 60 gas wells with a net equivalent of 11.32, an increase of 6.8% over 1962.

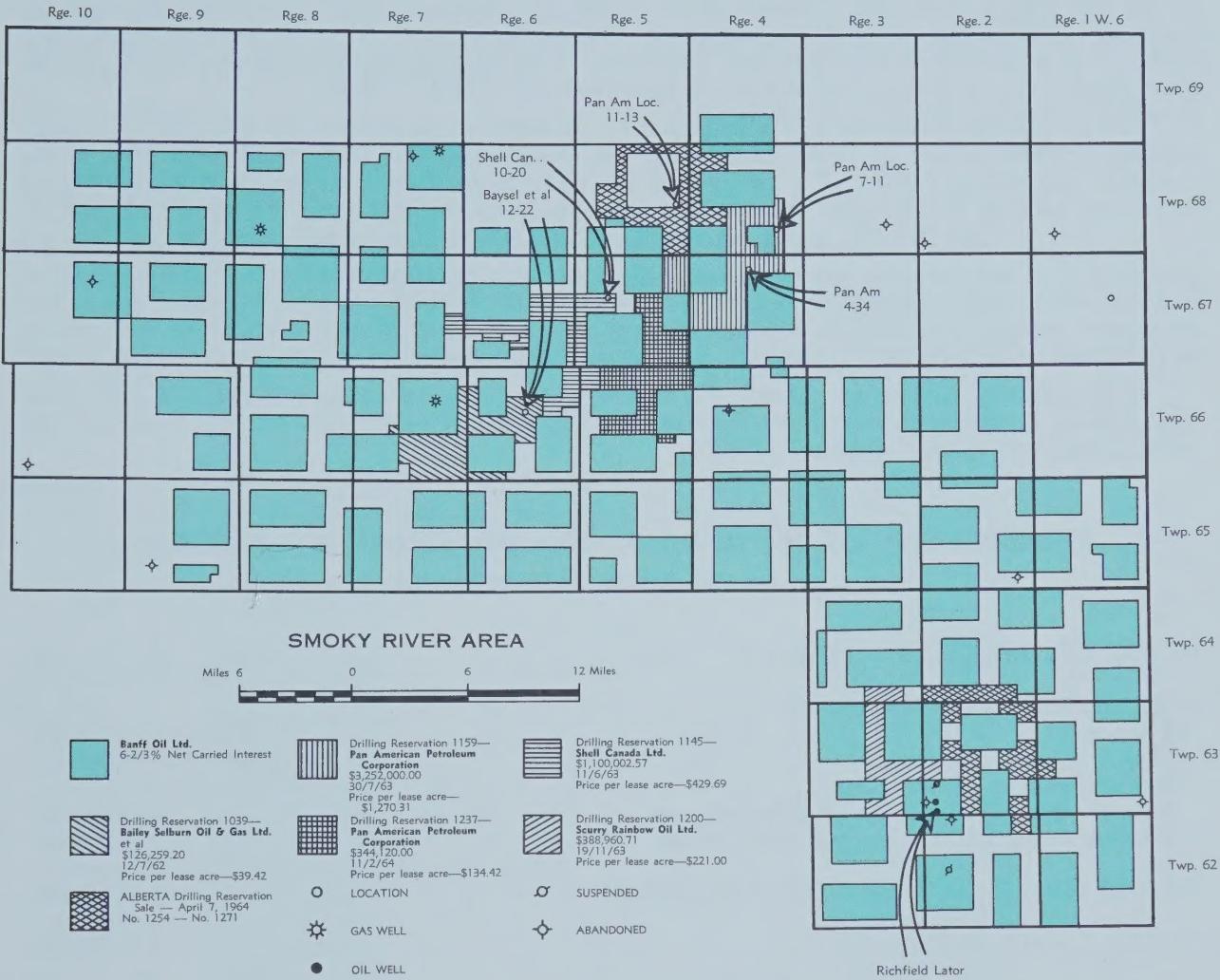
Reserve Summary

	1962	1963	Net Change
Crude Oil (net bbls.)	4,158,168	4,462,268	+ 7.3%
Pipeline Gas (MMcf)	102,336,000	92,083,000	- 10 %
Natural Gas Liquids (net bbls.)	1,620,802	1,429,965	- 11.8%
Sulphur (long tons)	429,896	391,530	- 8.9%

In spite of the sale of 620,000 barrels of Redwater reserves, net oil reserves showed an increase with the addition of new reserves at Morinville and the successful extensions at Bashaw and Wimborne. Despite the deletion of substantial reserves of gas and gas products dedicated to the production carve-out, successful exploratory wells have maintained the reserves of gas and gas products at a level only slightly lower than in 1962.

During the year the Provost Unit was enlarged to include Banff Provost 10-3-38-5-W.4, and the Company is now sharing in the production of gas and gas products from this field.

SMOKY RIVER AREA



The Smoky River block consists of approximately 422,000 acres of lease lands in which Banff has a 6-2/3% net carried interest. Exploration activity was heightened during the year by Pan American paying a record \$3,252,000 for a drilling reservation on the northeast corner of the block (see map). Shell had earlier purchased another drilling reservation for \$1,100,000. Both companies have since drilled exploratory tests on their respective lands but the results have not been released. One other exploratory test, Baysel Steep Creek 12-22-66-6-W.6, is currently drilling on a drilling reservation purchased at an earlier date. Recently Pan American staked two additional wells in 11-13-68-5-W.6 and 7-11-68-4-W.6, the former offsetting a drilling reservation posted at a Crown sale April 14, 1963.

On the southern portion of the Smoky River block Richfield Oil Corporation drilled two development wells to evaluate an oil discovery (2-6-63-2-W.6) in the Dunvegan formation that was completed in 1956.

The first offset, Richfield Lator 10-6 found production in three sands totalling 40' of net pay with a combined initial potential of 864 barrels per day. The second development well in 12-6 was abandoned and an extension try in 10-7 (one mile north) has been suspended as a marginal producer. A drilling reservation lying to the northwest of the producing area was purchased by Scurry Rainbow for \$389,000. More recently another drilling reservation located northeast of the Lator wells has been posted for a Crown sale, April 7, 1964.

The high exploration interest in this area thus continues and it is expected the value of the net carried interest held in these lands will continue to appreciate substantially.

Financial

In late 1963 a production carve-out of \$2,000,000 was negotiated with New York Life Insurance Company. Under the terms of the agreement 85% of Banff's share of production from the Calgary field will go to New York Life until they have received the principal sum plus interest at 6½%. At this point title to the properties and all proceeds of production will return to Banff.

Late in 1963 the Company sold a large part of its Redwater production for \$600,000 to a major company. Under present pro-ration conditions it was thought that this asset was of more value to the Company converted into cash. The proceeds of the above transactions were used to retire the secured debentures held by Northwestern Mutual Life Insurance and to repay most of the Company's bank debt.

The majority of the participants in the Wimborne Unit have decided to finance the building of the processing plant and gathering system with equity money rather than with debt money. Banff will, therefore, be called upon in 1964 to provide some \$625,000 as its share of capital construction costs. The mercaptans removal plant addition at Calgary is expected to be financed almost wholly by debt money so that Banff's share of capital construction costs should be minimal.

In an effort to present more clearly the affairs of your Company a statement of source and disposition of funds is presented herewith for the first time. The format of the financial statements has also been revised for the same reason.

Statement of Source & Disposition of Funds

FOR THE YEAR ENDED DECEMBER 31, 1963

	1963	1962
WORKING CAPITAL JANUARY 1	\$ 7,496	\$ (205,708)
ADD: FUNDS RECEIVED FROM:		
Operations	195,894	262,462
Sale of a producing property	600,000	—
Sale of future production, net	1,883,984	—
Proceeds from issue of long term debenture, net	—	1,024,602
Proceeds from sale of assets and other sources	—	58,627
WHICH PROVIDED FUNDS FOR THE PERIOD	<u>\$ 2,679,878</u>	<u>\$ 1,345,691</u>
TOTAL FUNDS AVAILABLE	<u>\$ 2,687,374</u>	<u>\$ 1,139,983</u>
WE DISPOSED OF FUNDS AS FOLLOWS:		
Reduction of long term debt	\$ 1,344,674	\$ 155,721
Exploratory drilling	203,279	451,269
Development drilling	376,827	177,197
Lease rentals	128,032	119,597
Acquisition of property and equipment	335,674	212,418
Preferred dividends	16,285	16,285
Other	7,128	—
	<u>\$ 2,411,899</u>	<u>\$ 1,132,487</u>
WORKING CAPITAL DECEMBER 31	<u>\$ 275,475</u>	<u>\$ 7,496</u>

Auditors' Report to the Shareholders

BANFF OIL LTD.
Calgary, Alberta

We have examined the statement of financial position of Banff Oil Ltd. as at December 31, 1963 and the related statement of operations and deficit for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and explanations given to us and as shown by the books of the company, the accompanying statement of financial position and related statement of operations and deficit are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at December 31, 1963 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.
March 20, 1964.

TOUCHE, ROSS, BAILEY & SMART,
Chartered Accountants.

Statement of Operations and Deficit

FOR THE YEAR ENDED DECEMBER 31, 1963

	1963	1962
Sales of crude oil, gas and gas products, less royalties	\$ 702,730	\$ 646,071
Production Expenses	261,403	220,382
	<hr/>	<hr/>
	441,327	425,689
Deduct:		
Administrative and general expenses, less recoveries	144,739	98,074
Interest on long term debt	100,694	75,217
Interest income	—	(10,064)
	<hr/>	<hr/>
	245,433	163,227
Operating cash profit	195,894	262,462
Deduct:		
Provision for depletion	97,522	82,002
Provision for depreciation	62,396	39,215
Oil and gas rights surrendered (Note 2)	—	73,083
Exploration rental and drilling costs on surrendered properties (Note 2)	29,295	41,352
Amortization of debenture discount and expense	3,217	1,522
Profit on sale of investment	—	(15,336)
	<hr/>	<hr/>
	192,430	221,838
Net operating profit	3,464	40,624
Profit on sale of a producing property	178,047	—
Profit on sale of future production (Note 6)	1,702,523	—
	<hr/>	<hr/>
	1,880,570	—
NET PROFIT FOR THE YEAR	1,884,034	40,624
Deficit at beginning of year	2,199,332	2,239,956
	<hr/>	<hr/>
Deficit at end of year	\$ 315,298	\$ 2,199,332
	<hr/>	<hr/>

The accompanying notes are part of the financial statements.

BANFF OIL LTD.

Statement of Financial

	Net Assets	
	<u>1963</u>	<u>1962</u>
CURRENT ASSETS		
Cash	\$ 210,388	\$ 153,523
Marketable securities, at cost (which approximates market) . . .	143,919	15,000
Accounts receivable	492,225	288,055
Inventory of tubular goods, valued at lower of cost or market	22,578	—
	869,110	456,578
Deduct: CURRENT LIABILITIES		
Accounts payable	417,492	244,352
Preferred dividends payable	8,143	8,143
Current portion of long term debt	168,000	196,587
	593,635	449,082
WORKING CAPITAL	275,475	7,496
INVESTMENTS AND OTHER ASSETS AT COST		
Wholly owned subsidiary (\$1,000) and advances (Note 1) . . .	31,391	29,281
Other investments	53,309	53,893
Refundable deposits	21,725	11,100
	106,425	94,274
PROPERTIES AND EQUIPMENT, AT COST		
Producing properties	2,760,088	2,934,777
Non-producing properties (Note 2)	2,359,716	2,009,901
Production and other equipment	653,687	455,119
	5,773,491	5,399,797
Less depletion and depreciation	1,001,995	945,122
	4,771,496	4,454,675
DEFERRED CHARGES		
Unamortized debenture discount and expenses	—	73,876
TOTAL ASSETS LESS CURRENT LIABILITIES	\$ 5,153,396	\$ 4,630,321

Position at December 31, 1963

Net Assets (continued)

	1963	1962
Total Assets less Current Liabilities	\$ 5,153,396	\$ 4,630,321
Deduct: LONG TERM DEBT		
6½% Secured debentures	—	1,077,800
Bank loan, secured	233,137	571,091
	<hr/> 233,137	<hr/> 1,648,891
Less Current maturities of long term debt		
included in current liabilities	168,000	196,587
Debenture redemption fund	—	42,493
	<hr/> 168,000	<hr/> 239,080
	<hr/> 65,137	<hr/> 1,409,811
NET ASSETS	<hr/> \$ 5,088,259	<hr/> \$ 3,220,510
	<hr/> <hr/>	<hr/> <hr/>

Shareholders' Equity

SHARE CAPITAL (Note 3)

Authorized			
7,000 cumulative redeemable convertible 5% preferred shares of a par value of \$100 each			
6,000,000 common shares of a par value of 50c each			
Issued			
3,257 preferred shares	\$ 325,700	\$ 325,700	
3,562,601 common shares	1,781,300	1,781,300	
	<hr/> 2,107,000	<hr/> 2,107,000	
PAID-IN SURPLUS	3,296,557	3,312,842	
	<hr/> 5,403,557	<hr/> 5,419,842	
DEFICIT	315,298	2,199,332	
SHAREHOLDERS' EQUITY	<hr/> \$ 5,088,259	<hr/> \$ 3,220,510	
	<hr/> <hr/>	<hr/> <hr/>	

SIGNED ON BEHALF OF THE BOARD

J. C. RUDOLPH, *Director*

B. D. FIRSTBROOK, *Director*

The accompanying notes are part of the financial statements.

Explanatory Notes to Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 1963

1. SUBSIDIARY COMPANY

There are no accumulated profits or losses in the accounts of the wholly owned subsidiary, Seacrest Oil Company, and its accounts are not consolidated with those of Banff Oil Ltd. because of their relative immateriality.

2. ACCOUNTING POLICY

All acquisition, exploration, rental and drilling costs are capitalized as non-producing properties. Costs relating to properties surrendered and costs of unproductive wells remain capitalized unless all properties within the related area are abandoned. If properties prove productive, the related costs are designated as producing properties. Capped gas wells are included in non-producing properties.

Depletion of producing properties is provided for on the unit of production method based on recoverable reserves as estimated by the company's engineers. Depreciation of production and other equipment is provided for on the straight line method at the rate of 10% per annum.

3. SHARE CAPITAL

The following schedule itemizes the changes in the share agreements transacted during the year:	
Options outstanding at December 31, 1962	125,000 shares
Options granted in 1963 - exercisable in varying instalments to November, 1967 at a price of \$1.47 per share	10,000 shares
Options cancelled during 1963	(45,000) shares
Options outstanding at December 31, 1963	<u>90,000 shares</u>

The share options outstanding at December 31, 1963 are exercisable in varying instalments to November, 1967 at prices ranging from \$1.05 to \$1.47 per share, and, subsequent to December 31, 1963, options for 67,500 of these shares were exercised.

An additional 97,710 common shares are reserved for the possible conversion of preferred shares.

4. PAID-IN SURPLUS

Paid-in surplus represents premiums on common shares issued, less dividends paid on preferred shares. In 1963, the dividends paid on preferred shares at \$5.00 per share amounted to \$16,285. At December 31, 1963, no dividends were in arrears.

5. INCOME TAX

For income tax purposes the company is entitled to deduct drilling and exploration expenses currently and may carry forward any excess of such costs over income. As a result, no income tax is payable for 1963, and there is a substantial carry-forward at December 31, 1963 for application against the income of future years.

6. PROFIT ON SALE OF FUTURE PRODUCTION

During the latter part of 1963 the Company sold the right to a substantial portion of its interest in the production income from the Petrogas Processing Plant which services the Calgary Crossfield and Elkton gas fields. This "Production Carve-Out" entitles the purchaser thereof to receive 85% of the Company's share of the net income after royalties and plant processing costs until such time as it has recovered its payment plus an amount equal to interest thereon at the rate of 6½% per annum on the declining balance.

The profit to the Company on the sale of this future production is calculated as follows:

Production payment received	\$2,000,000
Deduct	
Premium paid on redemption of outstanding 6½% secured debentures and consultants' fees and other financial expenses paid in order to obtain production payment	116,016
Cash profit	<u>1,883,984</u>
Deduct non-cash expenses	
Unamorized discount on 6½% secured debentures	\$ 70,659
Depletion and depreciation of development and property costs applicable to the sale of future production	110,802 181,461
Net profit on sale	<u><u>\$1,702,523</u></u>

7. COMMITMENT

The Company has entered into an agreement under which it is committed to pay approximately \$625,000 as its share of the cost of a gas processing plant to be constructed in 1964.

8. STATUTORY INFORMATION

Administrative and general expenses in 1963 include directors' fees of \$3,400.

